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Treasury Lets 10 Banks Repay $68 Billion in Bailout Cash

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The Treasury Department granted permission to 10 of the nation's largest financial institutions to repay $68 billion in government-bailout cash, showing that the industry is rebounding from losses that sank some firms and caused the world economy to buckle last year.

Tuesday's announcement set the stage for J.P. Morgan Chase & Co., Goldman Sachs Group Inc., Morgan Stanley and seven other financial-services companies to escape federal restrictions imposed in return for capital infusions under the Troubled Asset Relief Program. They included curbs on executive pay, dividend increases, hiring certain foreign workers for U.S. jobs, and lavish spending on corporate jets and conferences, which fueled a public backlash.

While the collapse of the U.S. banking system is no longer seen as an imminent danger, access to the capital markets remains difficult and bank balance sheets are clogged with troubled loans and other assets. Most of the nation's 8,000 banks are being hammered by the recession, and the number of bank failures is expected to climb. The 10 banks seeking to return government money will be able to continue leaning on the U.S. government in other ways, including by issuing debt guaranteed by the Federal Deposit Insurance Corp.

In addition to J.P. Morgan, Goldman and Morgan Stanley, Treasury officials gave the go-ahead to return capital to regional banks U.S. Bancorp and BB&T Corp., credit-card issuers American Express Co. and Capital One Financial Corp. and institutional banks Bank of New York Mellon Corp., State Street Corp. and Northern Trust Corp.

"I haven't seen anybody swinging from the chandeliers yet, but obviously this was the result we wanted," said Bob Denham, a spokesman for BB&T, a regional bank based in Winston-Salem, N.C., that will repay $3.13 billion.

Kelly King, BB&T's chief executive, said the company now will be able to reconsider an employee-recognition trip that he canceled due to political pressure.

Among the initial recipients of TARP funding, only Bank of America Corp., Citigroup Inc. and Wells Fargo & Co. haven't won approval to repay the government.

Wells Fargo spokeswoman Julia Tunis Bernard said the bank wants to pay back TARP "at the earliest practical date," but hasn't applied to do so because the capital is being used for loans to "creditworthy customers."

Treasury Secretary Timothy Geithner was upbeat about Tuesday's news. "We want to see a financial system that's strong enough that it's going to be able to support a reasonable recovery, and we're in a much better position today than we could have expected to have been six weeks ago," he said.

TARP represented an extraordinary decision by the federal government to prop up the financial sector in the weeks following the collapse of Lehman Brothers Holdings Inc. and the swift decline of Merrill Lynch & Co. The program began in October when the government bought preferred equity stakes in nine companies for $125 billion. All told, the government has bought stakes worth $199 billion in more than 600 companies.

"There may be some very short-term bragging rights for early repayers because you can advertise that you are no longer owned by the government," said Charles Peabody, a banking analyst at Portales Partners LLC, a New York research firm. "But I don't think the competitive advantage will be long-lasting."

Government officials planned for banks to keep their Treasury's investments for at least three years, but were forced by Congress earlier this year to allow banks an early exit. With signs of the financial sector stabilizing and bank stress tests complete, administration officials decided it was time to allow the strongest banks to return government funds. The money will be used to aid other firms in need of assistance, such as smaller banks that want TARP money.

Cantwell Muckenfuss, a lawyer at Gibson Dunn & Crutcher LLP in Washington who represents financial institutions, is skeptical that banks will revert to all of their previous practices. "I don't see this as some get-out-of-jail-free card," he says, noting that banks are highly regulated companies.

The uncertain economy is likely to keep spending tight. "These are challenging times, and that's not going to change simply because we repaid TARP," said Michael Cavanagh, J.P. Morgan's chief financial officer.

While the government will no longer have a financial stake in some of the biggest firms, Obama administration officials said scrutiny of pay and management practices will persist. The government has limited authority to dictate compensation practices without a direct investment, but officials said they plan to jawbone banks into reforming their ways.

"It is critical that as our country emerges from this period of crisis, that we learn its lessons; that those who seek reward do not take reckless risk; that short-term gains are not pursued without regard for long-term consequences," President Barack Obama said.

The administration will announce as early as Wednesday an effort to change compensation practices across the financial-services industry, including at companies that did not receive federal bailout money. Administration officials want to more closely align pay with long-term performance, such as having executive compensation come more in the form of restricted stock or other equity than from cash bonuses.

Much of the guidance will be voluntary and along the lines of "best practices" that banks will be expected to abide by.

Morgan Stanley said that while it is ready to pay back its TARP money, that won't change its views on compensation. The New York securities firm rolled out pay changes designed to discourage risk-taking that could backfire on the firm while enriching individual employees.

Lending also is likely to remain under scrutiny. Banks that received TARP money came under intense pressure to funnel those funds back into the market in an effort to keep the economy afloat.

The timing of repayments will be up to each bank. While banks can easily return the preferred shares the Treasury purchased in October, they must also deal with warrants the government received in the investments.

Those warrants, which gave the government the right to purchase common stock at a set price for 10 years, have value, and the Treasury must determine what price it will accept.

—Dan Fitzpatrick and Aaron Lucchetti contributed to this article.

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